

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1480-01
Bill No.: HB 437
Subject: Health Care; Insurance - Medical; Insurance Dept.
Type: Original
Date: February 25, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)
Total Estimated Net Effect on General Revenue Fund*	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Highway Fund	(Unknown)	(Unknown)	(Unknown)
Other Funds	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal Funds	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds*	\$0	\$0	\$0

* Unknown revenues and expenses net to \$0.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Social Services, Department of Mental Health and Missouri Consolidated Health Care Plan** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Missouri Department of Conservation (MDC)** state the proposed legislation would not appear to have a fiscal impact MDC funds

Officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** defer to the Department of Transportation for response regarding the fiscal impact of the proposal on the MHP.

Officials from the **Department of Transportation (DOT)** state this proposal establishes certain coverage similar to the federal Health Insurance Portability and Accountability Act (HIPAA) and addresses health pool and small employer coverage. The Highway and Patrol Medical Plan currently opts out of the HIPAA laws, which requires allowing coverage for members who were not enrolled during their initial eligibility period and would be to be enrolled through an approved Statement of Health. DOT assumes through this legislation that it would no longer have that option. Therefore, there could be a substantial fiscal impact to the Medical Plan.

However, these costs cannot be determined at this time.

ASSUMPTION (continued)

Historically, the DOT and plan members have shared in any premium increases necessary because of increases in benefits. The costs may be shared in the long run (meaning shared between three categories: absorbed by the plan, state appropriated funds, and/or costs to individuals covered under the plan). However, the Medical Plan, Missouri Highways and Transportation Commission (MHTC), DOT, and Patrol must make a decision on how to fund the increase. Until then, the potential costs of the proposal is unknown.

Officials from the **Department of Insurance (INS)** state this legislation provides pool coverage to HIPAA eligibles in lieu of the current federal HIPAA alternatives for individual health insurers. Currently, all individual health insurers are required to have at least 2 plans available to HIPAA eligible individuals. Passage of this bill will eliminate this requirement of insurers in favor of the Missouri Health Insurance Pool. The Missouri Health Insurance Pool will become the sole source of guaranteed issued individual health insurance coverage to HIPAA eligible individuals who do not otherwise qualify under and individual health insurer's underwriting guidelines.

This legislation caps the rates for HIPAA eligible individuals at the lesser of the actuarial rate necessary to fund claims for HIPAA eligible individuals or 150% of the standard rate. Section 376.986 is revised to set pool rates for all other eligible persons at 150% of the standard rate. Rates at 150% of the standard rate for all eligibles will make the pool attractive for individuals who are now in the competitive market.

The INS has received an actuarial analysis from the Missouri Health Insurance Pool on the estimated cost of reducing the current 175% of the standard rate to 150% of the standard rate. The analysis consists of three scenarios from best case to worst case. The INS has included this as a range (scenario A & C) in the fiscal note. The INS anticipates that with all eligibles at a rate of 150%, the actual cost will be closer to the worst case scenario.

Cost for the Missouri Health Insurance Pool (MHIP) are assessed to all health insurance companies who are members. These assessments can then be taken as a credit against premium taxes paid to the state. Tax Credits taken for the MHIP reduce only the GR portion of premium taxes paid. Therefore, the estimated cost ranges of \$11,413,447 to \$26,890,546 for FY 04 will be taken against general revenue.

The revision to 379.943 eliminates the small employer health reinsurance program and directs the money in its accounts over \$600,000 to be used to fund future pool claims in 2003 (the balance is now approximately \$1,275,000), and any amount remaining in 2004 to be directed to the pool for use (estimated to be \$600,000 for 2004). This amount has been used to reduce the estimated cost range for 2004 to \$10,813,447 to \$26,290,546.

ASSUMPTION (continued)

Projections from Actuary:

The worksheet provided by the actuary shows the fiscal impact for the next three years under 2 likely scenarios (Scenarios A and B) of enrollment growth and one "worst case" (Scenario C). Yearly financial results were shown on a "paid basis" and on an "incurred basis." Using the assumptions stated below, the annual cash flow was determined for premium at the current 175% of standard level and the proposed 150% of standard level. Cash flow equals revenue less administration and net claims. For each scenario, the revenue decreases per enrollee per month, while the administration costs and net claims grow with trend and the increased enrollment at 150% of standard. The 'Cash Difference' column showed the projected paid loss per year under each scenario. The 'Difference' column showed the projected loss on an incurred basis that assigns claims to the dates of service and is more appropriate on an accounting basis.

Actuarial Assumptions in Projections:

- 1. 80% of Administration fees increase at 8% per annum without regard to enrollment.
- 2. 20% of Administration fees change on a per enrollee basis but are constant.
- 3. Medical net claims growth of 12% per annum.
- 4. Prescription Drug net claims growth of 17% per annum.
- 5. For 175% of standard:
 - Enrollment growth of 15% per annum.
 - 10% annual increase to premium effective in January.

For 150% of standard:

-Scenario A:

- 2,500 enrollees are gained over 6 months beginning 1/1/04 and increasing at 10% per annum after.
- Net claims are 4% lower due to slightly better risks with increased enrollment and premium increases at 10% each year.

Scenario B:

- 5,000 enrollees are gained over 9 months beginning 1/1/04 and increasing at 10% per annum after.
- Net claims are 6% lower due to slightly better risks with increased enrollment and premium increases at 10% each year.

ASSUMPTION (continued)

Scenario C:

- 10,000 enrollees are gained over 12 months beginning 1/1/04 and increasing at 10% per annum after.
- Net claims are 8% lower due to slightly better risks with increased enrollment and premium increases at 10% each year.

Based on these assumptions, the actuary provided the following cost ranges for the proposed legislation:

Ranges:

2004	\$11,413,447 to \$26,890,546
2005	\$16,516,636 to \$ 61,154,411
2006	\$19,375,794 to \$72,196,708

Oversight assumes this proposal will allow the State of Missouri to be in compliance with the Health Insurance Portability and Accountability Act (HIPAA). **Oversight** assumes that being in compliance with HIPAA will qualify the state for federal grants for up to fifty percent (50%) of any losses in the high risk health insurance pool. This federal funding would reduce the amount to be assessed against health insurance companies. In addition, the lower assessment would reduce the amount to be credited by the health insurance companies against their premium taxes. **Oversight** is unable to determine how much the credits would reduce the premium taxes. **Oversight** assumes an unknown cost that would exceed \$100,000 annually.

This proposal will reduce Total State Revenue.

FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

GENERAL REVENUE

HW-C:LR:OD (12/02)

Costs - Department of Insurance

Health insurance pool costs	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)
-----------------------------	-------------------------------------	-------------------------------------	-------------------------------------

Costs - Department of Transportation

Increase in insurance premiums	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
--------------------------------	------------------	------------------	------------------

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND***

<u>(Unknown exceeding \$100,000)</u>	<u>(Unknown exceeding \$100,000)</u>	<u>(Unknown exceeding \$100,000)</u>
-----------------------------------------------------	-----------------------------------------------------	-----------------------------------------------------

HIGHWAY FUND

Costs - Department of Transportation

Increase in insurance premiums	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
--------------------------------	------------------	------------------	------------------

**ESTIMATED NET EFFECT ON
HIGHWAY FUND**

<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
-------------------------	-------------------------	-------------------------

OTHER FUNDS

Costs - Department of Transportation

Increase in insurance premiums	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
--------------------------------	------------------	------------------	------------------

**ESTIMATED NET EFFECT ON
OTHER FUNDS**

<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
-------------------------	-------------------------	-------------------------

FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

FEDERAL FUNDS

Income - Department of Insurance

Grants to reduce high risk insurance pool losses	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
--------------------------------------------------	----------------	----------------	----------------

Costs - Department of Insurance

High risk insurance pool losses	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
---------------------------------	------------------	------------------	------------------

ESTIMATED NET EFFECT ON

FEDERAL FUNDS*

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
------------	------------	------------

* Unknown revenues and expenses net to \$0.

FISCAL IMPACT - Local Government

FY 2004 (10 Mo.)	FY 2005	FY 2006
---------------------	---------	---------

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
------------	------------	------------

FISCAL IMPACT - Small Business

Small businesses could expect to be fiscally impacted to the extent that they may incur increased health insurance premiums as a result of the requirements of this proposal.

DESCRIPTION

This proposal amends the law relating to group health insurance, the health insurance pool, and the Small Employer Health Insurance Availability Act. In its main provisions, the proposal: (1) Defines a variety of terms, including "pre-existing condition exclusions" and "waiting period"; (2) Prohibits group health insurance issuers from establishing enrollment eligibility requirements based on "health status-related factors," which include medical history and genetic information; (3) Prohibits health insurance issuers that offer group health insurance coverage from requiring any individual, as a condition of enrollment, to pay a premium or other contribution that is greater than that made by other similarly situated individuals enrolled in the plan on the basis of health status-related factors; (4) Requires health insurance issuers offering large group health plan coverage to renew or continue coverage in force at the option of the plan sponsor; (5) Outlines conditions under which health insurance issuers can non-renew DESCRIPTION (continued)

or discontinue group health plan coverage, particular types of large group health insurance coverage, and all large group health insurance coverage; (6) Permits health insurance issuers to modify coverage for a large group health plan at the time of coverage renewal; (7) Changes the definition of the term

"placement" as it pertains to coverage of adopted children. In current law, placement means that the child is in the physical custody of the adoptive parent. The proposal changes it to mean the assumption and retention by the insured of a legal obligation for total or partial support of a child in anticipation of adoption; (8) Adds to the defined terms relating to the health insurance pool the terms "church plan" and "federal defined eligible individual"; (9) Designates as eligible for pool coverage individuals who are residents of Missouri and who provide evidence of: (a) refusal by one insurer to issue substantially similar insurance for health reasons; or (b) refusal by an insurer to issue insurance except at a rate exceeding 150% of the standard risk rate; (10) Makes eligible for pool coverage persons who terminated coverage in the pool less than 12 months prior, persons on whose behalf the pool has paid out \$1 million in benefits, and persons receiving treatment for drug or alcohol abuse. Under current law, these persons are ineligible for pool coverage; (11) Allows persons who do not maintain residency in Missouri to be terminated at the end of the policy period; (12) Changes the percentage limit on pool rates from 200% to 150% of the rates applicable to individual standard risks; (13) Changes the time within which a person has to apply for pool coverage (in order to have a waiver of pre-existing condition exclusions) from 60 days to 63 days; (14) Adds to definitions for the Small Employer Health Insurance Availability Act a variety of terms, including "creditable coverage," "excepted benefits," "health status-related factor," and "medical care"; (15) Modifies the definition of the term "small employer" as it pertains to a group health plan to include political subdivisions. A small employer is one who employs two to 50 eligible employees. Under current law, a small employer has three to 25 employees; (16) Modifies conditions under which small employer health benefit plans are not renewable; (17) Lists conditions under which small employer carriers can discontinue a particular type of small group health benefit plan and discontinue all small employer health insurance coverage; (18) Repeals the requirement for small employer carriers electing to non-renew all of its small employer health plans in the state to provide certain types of notice; (19) Allows small employer carriers offering coverage through a network plan not to offer coverage to an eligible person who no longer lives or works in the service area or to a small employer who no longer has an enrollee in the plan who lives or works in the service area; (20) Requires small employer carriers to offer all health benefit plans they actively market to small employers in the state. Current law requires small employer carriers to offer at least two health benefit plans: a basic and a standard health benefit plan; (21) Changes the way small employer health benefit plans can define pre-existing conditions. The proposal specifies that a pregnancy existing on the effective date of coverage is not considered a pre-existing condition; (22) Changes the requirement that creditable coverage be continuous to a date not less than 63 days prior to

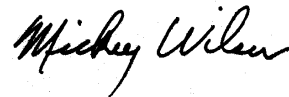
DESCRIPTION (continued)

application for new coverage. Current law is 30 days prior to the effective date of new coverage; (23) Establishes cases where small employer carriers are prohibited from imposing any pre-existing condition exclusion; and (24) Abolishes the Missouri Small Employer Reinsurance Program, effective December 31, 2004. The program will not take on any risk after October 1, 2003.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Transportation
Department of Mental Health
Department of Social Services
Department of Public Safety -
 Missouri Highway Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation



MICKY WILSON, CPA
DIRECTOR
FEBRUARY 25, 2003